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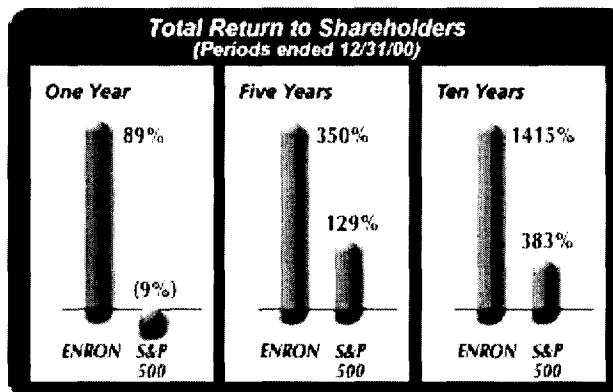
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Enron Turns in a Stellar Performance in 2000



by Mary Clark

Simply stunning. That's how Chief Executive Officer Jeff Skilling describes Enron's strong financial and operating performance in 2000. Every major business - pipelines, wholesale services, retail and broadband - turned in strong performances for the year that were reflected in record volumes, contract value and profitability. Revenues increased two-and-a-half times, reaching \$101 billion. For the first time, Enron's pre-tax net income exceeded \$1 billion, a 32 percent increase over last year, and shareholders received an 89 percent gain on the stock price. Other significant highlights included:

- Fourth quarter revenues of \$40.75 billion, exceeding 1999's entire reported revenues of \$40 billion;
- 25 percent increase in earnings per diluted share to \$1.47;
- 59 percent increase in marketed energy volumes to 52 trillion British thermal unit equivalents per day; and
- Nearly doubling of new retail energy contracts to \$16.1 billion.

Enron Business met with Jeff to discuss last year's results and his outlook for 2001.

EB: Enron had a great 2000. How did we do it?

Jeff: Every one of our businesses performed beyond our expectations.

- Starting with the pipelines, they did a great job, as always, hitting their numbers to bring in consistent earnings and cash flow. They're taking a market-oriented approach to their business and they're using technology to help expand

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revenues and reduce costs, which gives them a strong competitive position.

- Our wholesale business gets the gold star, largely driven by the success of EnronOnline. There's no question; we had a phenomenal year, increasing our market share with enormous growth across the board. In addition to a huge increase in total volumes, the group had an 82 percent increase in total natural gas volumes and a 62 percent increase in total power volumes. Breaking that out further, our wholesale volumes in North America grew by a substantial margin, with a 77 percent increase in natural gas and a 52 percent increase in power volumes. In Europe, we saw exceptional growth, with a 131 percent increase in natural gas volumes and a 372 percent increase in power volumes. I'm amazed at this growth in volumes.
- I think everyone agrees that 2000 was a breakout year for Enron Energy Services (EES). We told The Street that EES would move into the black in the fourth quarter of 1999, and it did - setting up a strong 2000. For the full year 2000, EES reported \$103 million of recurring income before interest and taxes, compared to an overall loss of \$68 million in 1999. EES wrapped up 2000 with more than \$16 billion in new contracts and is managing about 30,000 facilities worldwide for a total of approximately 2.8 billion square feet. Our people have absolutely confirmed retail as a significant business for us in the future with significant growth and profit prospects.
- We accomplished two important things at Enron Broadband Services (EBS) last year. First, we proved there is a developing market for traded bandwidth with 320 transactions completed by year end, most of those during the fourth quarter. On the content side, EBS closed the deal with Blockbuster, which is important for two reasons:
 - Number one, it's a huge contract and if we're successful in building video-on-demand, it will be enormous in terms of growth; and
 - Number two, the size and scope of the business is so significant that it has been a catalyst in pulling together our capability to offer video-on-demand, now available in Seattle, Salt Lake City, New York City and Portland, Ore., with other locations to come this year.

EB: What do you believe has been the most significant impact of EOL on Enron and on the industry as a whole?

Jeff: For Enron, EOL drove a large part of the volume growth in our wholesale business. It has now become integral to the way we conduct business, which is evident in the increase in total volumes. For the last five years, our volume increases were in the 20 to 30 percent range. In 2000, our physical volumes grew by more than 60 percent, which can be credited to the effective, easy-to-use Internet-based transaction system.

There was an even bigger impact for the industry: EOL created transparency in the marketplace. Before EOL, it took hours or even days to transact a deal. Now people can look at the price of gas or electricity, for example, and if they like the price, they can buy it and have it delivered where they need it, all in a matter of minutes. That's new for the industry.

EB: What about the other platforms - the EOL wannabes?

Jeff: Well, they gave us a one-year head start. In this business, one year is a lifetime.

EB: We entered into new businesses in 2000, like metals, and launched web applications such as Credit.com, DealBench.com and Clickpaper.com. What does that say about Enron?

Jeff: It says we're increasingly viewed by the investor community and the media as less of an energy company and more as a company that makes markets. Making markets is core to every business in the world and if we can show that we have a business model that does it better than anyone else, it opens up a world of new markets that we've not yet tapped, such as data storage, steel, freight and agricultural products. It is endless possibilities for sure.

As a company, it shows we have a better mousetrap that we can apply to a host of new businesses. From the standpoint of our shareholders and employees, it means strong growth that is good for everyone.

EB: What are we doing this year to ensure that we get the best return on our invested capital?

Jeff: First, we are culling through our asset positions worldwide and identifying those that are not earning a compensatory rate of return. We will either monetize or sell those assets so we can free up cash and plow it back into the businesses that are getting a higher return on capital.

Second, we are more rigorous in our analysis of new capital investments. For one, we are only investing in new assets where there is a high probability of earning a compensatory rate of return. We're also seeking ways to increase the turnover of capital. In other words, we aren't assuming that we will hold an asset for 30 years. Instead, depending on our strategy, we will determine what is the best time frame to hold an asset. However, there are some assets, like our interstate pipelines, that are not for sale because they are important to our business strategy.

EB: Who are our major competitors and what are we doing to stay ahead of them?

Jeff: I worry more about making sure we have the best people. That's the key component to Enron's future success. As long as we have the very best people, and they're coming up with new ideas and working hard to turn those ideas into new products and new businesses, then we're going to win. So, our task is to always be thinking about what our competitors haven't thought of yet.

EB: Given the situation in California and the view that the crisis in the state has been caused by deregulation, what does that mean for the national deregulation effort?

Jeff: Let's be clear that deregulation has not failed; California never deregulated. In fact, the problems in California have been caused by continued regulation. These regulations prevented the construction of new competitive generation, prevented real competition and market pricing at the retail level, and prevented long-term contracting to reduce exposure to spot market volatility.

The reaction in other jurisdictions has been two-fold. First, there has been increased hesitation to deregulate by those who have not opened their markets. In addition, there has been a close

examination of the programs in open and opening jurisdictions to ensure that they can avoid California's mistakes. Most jurisdictions across our target markets - North America, Europe and Japan - are proceeding with deregulation. We are even seeing some acceleration in Europe. Observers of the California situation are beginning to realize that California did not deregulate, and they are carefully pointing out what should be done differently. That message will help our cause both in California and around the world.

In the commercial arena, customers - wholesale and retail alike - are seeing the importance of managing their exposure to volatile energy prices. Managing that exposure is what we do. The phone is ringing off the hook.

EB: What will be the key drivers of our stock price in 2001?

Jeff: This is how I see it, assuming the market stays in reasonably good shape.

- Wholesale - As investors become more comfortable with the incredible growth prospects and profitability in this business, I think we can expect to get a multiple expansion. That could mean a \$10 to \$15 increase in incremental value in our stock price.
- Retail - If we have the kind of performance that we've built into our plan this year, I believe we will be stunned again at what retail can do for us. That could add another \$10 to \$15 to the stock price.
- Broadband - As people realize how our strategy in this business is very different from all the other strategies, and it is geared exactly toward the kind of market environment we're entering, a period of oversupply, where we always excel -- we could get \$5 to \$10 of upside in the stock.
- We also should get another \$16 if we grow our earnings by 20 percent this year.

So we have significant upside in the stock price, probably in the \$125 range.

The biggest downside will result from our not making significant progress to improve our return on invested capital. This is very important to our investors. We've got to get some points on the board and get that return up. If we don't, it could put some downward pressure on the stock price.

EB: Can employees expect more reorganizations this year?


Jeff: Absolutely. It's one of our strengths to be able to move our talent around the organization where they are needed. We're in a fast-moving market. It's changing constantly, and we have to change, too.

EB: Our current vision is to become the world's leading energy company. Should we change our vision? Why or why not?

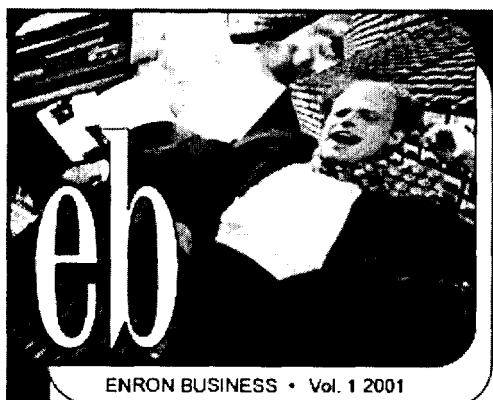
Jeff: We will be changing our vision, which you will be hearing about very soon. Many of our existing business opportunities are centered around what we do best - creating markets. Our new vision will reflect that. [Editor's note: EB will include an article about Enron's new vision in the April issue].

EB: As our new CEO, what are your immediate plans?

Jeff: Ken [Lay] and I have worked together for about 15 years in all, and we share the same vision and passion for Enron. So, it's really business as usual. I don't see much changing in the way Ken and I work together.

One thing I will be spending more time on is the whole concept of "one Enron." We've made a clear transition toward the strategy of creating markets, which is something we do in all our businesses. But we have to find better ways to interact and share ideas across the company. The concept of Enron as one company is something that is important to the success of our business. It's something I'd like to keep on the forefront over the next couple of years. 

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Just About Jeff

Born: November 1953, Pittsburgh, Pa.

Education: BS in Applied Science, Southern Methodist University - 1975 MBA, Harvard Business School - 1979

Marital Status: Divorced

Children: Kristin, 17, Jeffrey Jr., 15, John Taylor, 10

Now that Jeff is at the helm, we thought you might want to know a little more about him. We certainly did. So we asked him more than 20 insightful questions, and this is what he had to say:



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to enlarge

What word best describes you? Intense

What do you like best about your job? An opportunity to change the world for the better

What do you like least about your job? It's all-consuming

Who would you like most to meet? Nelson Mandela or Johnny Carson

What is your ideal vacation spot? A deserted beach or anywhere in Africa

What car(s) do you drive? Mercedes 500S; Land Rover Defender 90 (kind of a jeep)

Greatest extravagance - My Land Rover Defender

Best bargain - 4 authentic metal African war shields (\$120)

If you couldn't do what you are doing now, what would you do? Fly DC-3s for the CIA in Africa

Favorite fictional character - Yosemite Sam

I never have enough time for . . . Sleep

Favorite movie - A tie between Dr. Zhivago and Butch Cassidy & The Sundance Kid

Favorite web site - enron.com

Favorite charity - Multiple Sclerosis

Why SMU? - Full tuition scholarship, way to get to Texas

Did you ever fail a class? Business History (can you believe it? My favorite thing!) at Harvard Business school. In spite of it, graduated a Baker Scholar (top 5% of class)

Biggest regret - got married too young, had children too old

Languages spoken other than English - restaurant Spanish

Favorite lunch - Arby's

If you could change one thing about yourself, what would it be?
I'd get a sense of humor

Favorite musician - Steve Martin on the banjo

Most embarrassing moment - Absolutely blowing the first pitch at Enron Field

In high school, you were voted most likely to . . . stay a nerd

You knew you made it when . . . I asked women out on dates; they stopped laughing

Favorite spectator sport - Baseball

Favorite cocktail - Gin and tonic

Favorite book - Gartner's biography of John D. Rockefeller first published in 1932

Your children would describe you as . . . "Mr. Activity"

Best advice you ever received - If it doesn't make any sense, don't believe it

Best advice you ever gave - If you've got no cattle, don't wear a big hat

What time do you go to sleep at night? Good question

Can you cook? Campbell's soup, Spaghettios

Do you have a pet? No, but love dogs - especially big dogs

What is your favorite trait in people? Enthusiasm

What is your pet peeve? People that fall asleep when I'm talking to them

What fraternity did you join in college? Beta Theta Pi (Ken Lay's fraternity, also) ☞

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